VALUE OF ₹100,000 INVESTED IN VARIOUS ASSET CLASSES

	SENSEX	GOLD	SILVER	FD (SBI)	PPF
1-YEAR	105,079	108,248	100,258	106,250	108,000
1-YEAR POST-TAX RETURNS	105,079	105,774	100,181	104,375	108,000
5-YEAR	171,189	106,756	85,841	153,862	151,757
5-YEAR POST-TAX RETURNS	171,189*	106,081	NA#	135,727	151,757

#Silver prices suffered losses;
*Note: Cumulative equity gains up to ₹100,000 in a financial year are tax-free. All post-tax returns are calculated for an individual in the 30 per cent tax bracket, without considering the indexation benefit

As on January 4, 2019, in ₹; compiled by BS Research Bureau

Rely on debt in a choppy year

With elections and global headwinds likely to keep markets nervous, bet on short- and medium-term debt

SARBAJEET K SEN

The year 2019 promises to be an eventful year for investors. The general election year was set in motion by Prime Minister Narendra Modi through his widely telecast interview on the first day of the year. The political tussle, leading up to the general elections in May, is surely going to get intense and, at times, acerbic. Market observers and investment advisors believe the run-up to the elections and its results would have a huge bearing on how financial markets behave. In general, the investment community is averse to uncertainties.

Election impact: "The biggest factor that will impact the Indian equity markets in 2019 is the general election, the results of which would come sometime in May. The markets are expected to be extremely volatile in the run-up to the elections," says Rahul Agarwal, Director Wealth Discovery/EZ Wealth.

While Agarwal feels that the current view of the market is that the NDA may scrape through in the elections. However, a change in government could spook the markets. "At this point given the price action in the market, it appears that political uncertainty is not priced in and the markets are in broad agreement that the incumbent government would get a second term. However, if the results are contrary to the market consensus, we can see a major selloff in the equity markets, market participants like predictability and a stable policy framework and any disruption to the status quo, therefore, will lead to a market correction in the immediate short term after the results," adds Agarwal.

S Sridharan, Head, Financial Planning, Wealth Ladder Investment Advisors agrees with Agarwal but says that the markets would soon focus on fundamentals after elections. "The coming election is the big event until May 2019. The market will always cheer if there is continuity in government. Otherwise, it may witness negativity. However, this will live for a short period. The corporate earning revivals could take the market to the next level," he feels.

Other factors: While a major focus will be on the way the electoral battle moves, the market will also keenly watch other domestic and global developments. These would include the interest rate movement and the Reserve Bank of India's stance on interest rates and the liquidity measures, how crude oil prices pan out, the rupee movement and inflation. Global geo-political environment, US-China trade war, and the US Fed's stance on the interest rates are some other factors that certainly would have significant bearing on the Indian equity markets in 2019. "Historical data shows that there is heightened volatility in the months immediately preceding Lok Sabha elections. Given the existing global macro headwinds, that is, trade war escalation, slowing global growth, US recession concerns and lingering concerns over RBI autonomy, there could be enhanced volatility environment and that may have a negative bias towards market performance in the near term," says Anil Rego, Founder and CEO, Right Horizons.

Bet on debt: Debt could play a major role in stabilising portfolios in the coming months. Investors should consider significant exposure to fixed income securities for capital preservation, which could be debt mutual funds, banks fixed deposits or high-rated corporate debt instruments. "Investors should increase their allocation into debt securities up to 40 per cent of the portfolio for a moderate to low-risk profile. In the short term, interest rates are expected to go down though the long-term interest rate trajectory is unclear. It is therefore advisable to stay in short-term to medium-term debt instruments to minimise interest rate risk in a fixed income securities portfolio," says Agarwal.

Rego also advises staying invested in the shorter end of the debt market. "Debt essentially plays the role of a cushion. In a growth-oriented portfolio, debt works as a shock absorber. In a portfolio biased towards income generation, debt plays the crucial role of delivering stable gains and also has to minimise capital loss. For short-term goals, it is always wise to keep the investments in safe investments like bank deposits, liquid or low-duration or arbitrage funds," Rego says.

He advises existing debt investors to look at reducing their exposure to long duration bond funds and credit funds and that the focus should be on debt funds with shorter maturity profile and extremely good credit quality portfolio. "If you are investing in debt for stability, invest in debt funds that stick to government securities, treasury bills and top-rated PSUs only," adds Rego.

Portfolio mix: A good investment portfolio should have a healthy mix of equity and debt keeping. The portfolio mix, however, should be based on the one's risk appetite and market situation. Agarwal feels that given the likelihood of high market volatility, an ideal portfolio for 2019 should have a higher fixed income component and the equity exposure should also be largely allocated to select large-cap stocks, along with diversified mutual funds, some capital can, however, be assigned to select quality midcap stocks that have taken significant beating in 2018.

Strategies: In view of the likely heightened volatility, the primary focus of investors should be on risk minimisation and capital preservation, especially during the first half of the year. The most efficient way for investors to minimise portfolio risk in 2019 would be to invest systematically at regular intervals. "Systematic investments can be made through mutual fund SIPs. If an investor chooses to participate directly in the markets, he/she should buy select good quality stocks at regular intervals to improve the average cost of buying. Investors should also focus on diversification to mitigate the volatility in a specific sector," Agarwal advises.

However, while reworking one's portfolio based on current events of likely future developments, one should always keep their financial goals and their risk-taking abilities in focus. Thus, the equity market is not the place to be if you are easily spooked by market volatility. In case you are uncertain, the best recourse is to take help of a qualified advisor. "A much easier job is to outsource such complicated decisions about asset exposure to asset allocation funds that have a formula based approach. Dynamic asset allocation is a job best left to experts," Rego says.

EQUITY PERFORMANCE DURING ELECTION YEARS

If you had invested six months and three months before general elections, you would have mostly made gains on the result day

Election year	Sensex*	% Return # 6-mth	% Return # 3-mth
1989	712	**1.9**	**-3.9**
1991	1,337	**26.3**	**14.1**
1996	3,750	**14.1**	**8.0**
1998	3,646	**-8.1**	**2.3**
1999	4,963	**38.4**	**14.8**
2004	5,399	**9.1**	**-10.2**
2009	12,173	**29.7**	**26.3**
2014	**21,277**	**4.3**	**1.5**

*Election result day closing
Investment made before 3 Mth & 6 Mth;
Source: Exchange
Compiled by BS Research Bureau

RIDING THE VOLATILITY

Rahul Agarwal
Director, Wealth Discovery/EZ Wealth

Low-risk investments:
- Short-term bebt securities (30%)
- Diversified dunds (20%)

Riskier investments:
- Large-cap ctocks/funds (30%)
- Mid- to long-term debt securities (10%)
- Small and mid-cap stocks/funds (10%)

S Sridharan
Head, financial planning, Wealth Ladder Investment Advisor

Low-risk investments:
- Debt component can be around 30% of the portfolio

Riskier investment:
- 70% of the portfolio

Lighten up equity portfolio

Keep cash in hand to ensure that you have the ability to invest heavily if the market does lose steam in April and May

MARKET INSIGHT

DEVANGSHU DATTA

The randomness of stock market returns can be illustrated by long time-series. In the 20 years since January 1999, the Nifty had seven years of net losses. It also had three big years when it gained over 50 per cent. In 10 years, it gained, with annual returns somewhere between 1-15 per cent. In January 1999, the Nifty was at trading around 900. It is now in the 10,750 range. This means the compounded return for this period is around 13.25 per cent.

The compounded annual rate of growth, or CAGR is more than acceptable since the real returns would have exceeded inflation comfortably. It's unlike that any other asset-class would have fetched higher returns across that two-decade period. But the return is not consistent. Something like 40 per cent of the time, the return is either negative, or lower than inflation. In 11 of those years, fixed deposits beat equities.

This data explains why it's sensible to park a large chunk of your savings in equity — it will give you the best returns over the long-term. This data also explains why you should not put everything in equities: there are no guarantees about returns in the shorter-term. If you need money for an emergency or in order to make some sort of regular payment, you can't rely on cashing in on an equity investment.

The bull-run of the past few years has led to an interesting change in the demographics of investors. More retail investments have come into the market — indeed, strong mutual fund inflows have kept the market afloat. But this also means that there are a large number of first-time investors who had never suffered serious losses until 2018.

In behavioural terms, this means there are a lot of investors who frankly don't know their own risk-appetites. When investments keep growing at a fast clip, it's easy to over-allocate to equity, and also to be aggressive in picking growth

The last calendar year saw poor returns. The Nifty returns were nominally positive but barely kept ahead of inflation. Fixed Deposits outperformed. Small-caps and Mid-caps gave negative returns, with small caps losing over 20 per cent.

This sort of loss-making period is the acid test when investors discover what their risk appetite really is. Can you live with 20 per cent capital erosion? Can you live with 30 per cent? There are years when a decent equity portfolio could lose 50 per cent. Can you live with that?

The next six months could be fairly bearish. Historically, the lead-up to a general election tends to be excessively volatile and big losses are perfectly possible. It is a good time to take stock of your equity portfolio.

Some equity investors will cut off their investments totally if the market gets too volatile. Don't do that. If you wish to reduce volatility, shift your weight from small caps to large caps because large caps lose less in downturns (they also gain less in bull markets).

Here are a few more suggestions to help ride out volatility. First, take an overview of your financial needs during this period, and maybe, for the entire year. Make sure that those needs can be fulfilled without touching your equity investments. If you need to lighten up the equity component of your portfolio to ensure that you will have that cash on hand, do so. Park it in short-term or medium term debt — either in debt mutual or in fixed deposits. If interest rates do fall, the debt mutual will make much better returns than fixed deposits.

After that, be prepared to committing to any systematic investment plans you hold. Be prepared to commit more, if there are big losses in April and May. Gamblers call this a Martingale strategy. Unlike roulette, where a loss is a loss, in equity investments, buying more stock at lower prices leads to lower averaged cost. An eventual market recovery means better returns.

You may note various surveys that suggest a coalition government will lead to bad economics. This is a common belief. It is also rubbish. The best economic governance has been delivered by coalitions. The very best decisions, were taken in 1991 and 1999 by coalitions that did not know if they would survive from day to day. If a coalition comes to power, the market could see a

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USE CREDIT CARD WITH DISCRETION

Among all financial products, it has the highest charges and penalties

TINESH BHASIN

- Treat a credit card as a convenient means to pay and not as an efficient way to borrow
- Understand charges, fees and penalties (*See table*) and avoid taking excess debt
- The most common reason for the build-up of debt is that borrowers make only partial payment or pay only the minimum amount due
- The balance, then, gets added to the next bill and the combined amount attracts extremely high interest charges
- Eventually, the cardholder has to pay heavy interest on the outstanding
- Once in a debt trap, the only recourse is to take a personal loan to clear the debt or convert the credit card dues into equated monthly instalments

FEES, CHARGES AND PENALTIES

Card name	Finance cost (annual in %)	Joining/ Annual (₹)	Overlimit	Cash withdrawal (%)	Late payment (₹)
Citi Rewards	39.00	1,000	2.50%	2.5 (Min ₹500)	300 - 950
HDFC Moneyback	41.88	500	2.50%	2.5 (Min ₹ 500)	Up to 750
American Express Membership Rewards	42.00	Joining Fee: 1,000 Annual Fee: 4,500	₹500	3.5 (Min ₹250)	500 - 1,000
Standard Chartered Manhattan Platinum	41.88	Joining Fee: 499 Annual Fee: 999	2.50%	3 (Min ₹300)	Up to 800
ICICI Bank Platinum	40.80	Joining Fee: 199 Annual Fee: 99	2.50%	2.5 (Min ₹300)	Up to 750
SBI SimplyCLICK	40.20	499	2.50%	2.5 (Min ₹300)#	Up to 950
HSBC Visa Platinum	39.60	NIL	₹500	2.5 (Min ₹300)	400-750

Note: Most cards offer waiver of joining and annual fee if the customer spends up to a certain limit in a year. All cards charge a minimum overlimit fee of ₹500. Overlimit fee is a % of the overlimit amount. Cash waithdrawal fee is a % of withdrawn amount.
#The fees is for domestic ATMs; for International ATMs it's 3%.
Source: Paisabazaar.com

New Consumer Protection Bill is more comprehensive

However, lawyers say that instead of a new Bill, the government should have added new sections to the existing Act

TINESH BHASIN

ADDITIONAL PROVISIONS

	Consumer Protection Bill
Product liability	Claim for product liability can be made. Compensation can be obtained
Unfair contracts	Lists contract terms which may be held as unfair
Regulator	Establishes authority (CCPA) to promote, protect, and enforce the rights of consumers as a class
Mediation cells	Mediation cells will be attached to the District, State, and National Commissions
Penalties	₹25,000 extendable to ₹1 lakh
E-commerce	Defines direct selling, e-commerce and electronic service provider

The government has made the Consumer Protection Bill, 2018, comprehensive to empower consumers. But the new legislation will take a decade or more to "settle", and have enough judicial precedents on all its aspects, according to consumer lawyers.

The Consumer Protection Act (CPA) has about 31 sections. The Consumer Protection Bill (CPB), 2018, has around 107. "Instead of bringing in a new Act, the government should have amended the existing CPA making it more comprehensive. There are already judicial precedents and detailed orders from the Supreme Court on many of its aspects," says M S Kamath, secretary, Consumer Guidance Society of India.

Consumer lawyers and activists say that in the new Bill the government should have also focused on measures to ensure speedy delivery of justice. "In metro cities, a consumer now has to wait for three years for the con-

cities, says Jehangir Gai, a consumer lawyer and activist.

The new Bill, which the Lok Sabha has passed in December and is now in Rajya Sabha, aims brings significant changes to the existing laws. It has provisions against adulteration; misleading advertisements; it sets liability for defective products; and talks of setting up a watchdog and mediation mechanisms.

Limits enhancement for forums: The new Bill enhances the jurisdiction of the consumer forums. Cases that have dispute amount of up to ₹1 crore will have to approach district forum. At present, a consumer approaches a district forum if the value of good or service in dispute up to ₹20 lakh. For state commission, the new limit will be above ₹1 crore to ₹10 crore. State commissions' jurisdiction currently is for an amount exceeding ₹20 lakh and

an amount exceeding ₹10 crore. At present, it is an amount exceeding ₹1 crore.

The enhancement has its benefits and drawbacks. At present, consumers who have houses exceeding ₹1 crore have to compulsorily approach the National Commission in Delhi for disputes with developers. Such individuals will now get to fight cases closer home – in their state – saving time and money. At the same time, the district forums are likely to be burdened with a higher number of cases if the jurisdiction is enhanced, which can further delay the time taken for cases to conclude.

Watchdog for proactive actions: If the Bill is passed in the Rajya Sabha, there will be Central Consumer Protection Authority (CCPA) which will promote, protect, and enforce the rights of consumers. The authority will issue

tive trade practices, impose penalties for false and misleading advertisements, and so on.

But its role is yet to be clear. Based on the wording of the Bill, consumer organisations say that the new authority's functions could overlap with the judiciary's, which can lead to confusion. Shirish Deshpande, chairman of Mumbai Grahak Panchayat, questions: "If a person is the victim of false advertising or unfair trade practices, should it approach the watchdog or judiciary? And, what relief can he expect from the authority?"

Enhanced provisions: Under the provisions of the new Bill, if a consumer suffers an injury from a defect in a good or a deficiency in service, he would be able to file a claim of product liability against the manufacturer, the seller, or the service provider. This provision can come in handy for cases such

penalties for adulteration of food.

The Bill also includes provisions on unfair contracts, which are rampant in real estate purchase. The state and National Commission can declare such terms to be null and void if the terms of a contract are unfair. It also labels e-commerce firms as service providers, thus increasing liability in case of an error by them. Any celebrity or renowned individual misleading customers through false advertisements can also get into trouble. The new bill proposes to hold such personalities accountable and imposes fine on them.

To save consumers from fighting lengthy cases in forums, the Bill proposes to set up consumer mediation cell at all commissions. The district, state or national commission can refer matters for mediation if the parties consent to settle their dispute. Consumer organisations say that lawyers may not agree for mediation and let the case resolve early. "But if consumers opt for mediation, they can get a resolution much faster. We are conducting mediations between buyers and developers at Maharashtra real estate regulator. About 87 per cent cases are successfully resolved with it," says Deshpande.

Consumer activists feel that the government could have done more with the new Bill. "At present, if a person gets free service or product, he cannot take the manufacturer or service provider to court. The new Bill should have tackled this problem. Patients getting treatment in government hospitals, for example, do not have an adequate remedy in case there are medical issues due to the negligence of doctors or hospitals," says Gai. Others feel that for speedy disposal of cases, there